LIBERTY
OIL & GAS LTD.

1999 Annual Report

Company Profile

Liberty Oil & Gas Ltd. commenced operations as a private company under the Business Corporations Act of Alberta on November 6, 1995. Liberty became a public company by completing a reverse takeover of Rockport Energy Corporation and amalgamating the two companies under the Canada Business Corporations Act on November 30, 1998. The Company's principal business is the acquisition, exploration, development and production of oil and gas properties in Western Canada. Liberty is based in Calgary and has operations in Alberta and Saskatchewan.

Liberty is listed on the Canadian Venture Exchange (CDNX) under the trading symbol LBR.

The number of shares issued and outstanding as of May 12, 2000 is 13,374,354.

2000 Annual General Meeting

Place: The 400 Club, McDougall Room
710 - 4th Avenue SW
Calgary, Alberta T2P 0K3
Time: 2:00 p.m.
Date: Wednesday, May 31, 2000

Contents

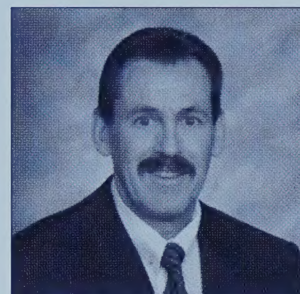
Glossary

ARTC	Alberta Royalty Tax Credit	M	Thousand
Bbl	Barrel	MM	Million
Bbls/d	Barrels per Day	Mcf	Thousand cubic feet
BOE	Barrels of Oil Equivalent (10 Mcf = 1 BOE)	Mcf/d	Thousand cubic feet per day
BOE/D	Barrels of Oil Equivalent per Day	MMcf/d	Million cubic feet per day
MBOE	Thousand Barrels of Oil Equivalent	NGLs	Natural Gas Liquids

Corporate Summary

Fiscal Year Ended December 31	1999	1998	1997
FINANCIAL			
Total assets	$ 15,959,438	$ 10,873,043	$ 4,252,128
Long-term debt	$ 5,242,212	$ 4,159,701	$ 1,184,128
Shareholders' equity	$ 6,543,761	$ 5,110,157	$ 2,345,007
Cash flow from operations	$ 1,543,562	$ 352,170	$ 115,564
Cash flow per share	$ 0.14	$ 0.05	$ 0.02
Net income (loss)	$ 467,830	$ (615,065)	$ (83,911)
Basic and fully diluted earnings (loss) per share	$ 0.04	$ (0.09)	$ (0.01)
Number of common shares outstanding during the year	10,927,039	6,911,773	5,672,422
Product Prices			
Oil + NGLs (per Bbl)	$ 23.56	$ 15.11	$ 23.98
Natural Gas (per Mcf)	$ 2.93	$ 2.02	$ 1.83
Annual Gross Sales			
Oil + NGLs	$ 2,560,491	$ 513,488	$ 281,728
Natural Gas	$ 1,899,696	$ 1,305,382	$ 380,385
Total	$ 4,460,187	$ 1,818,870	$ 662,113
PRODUCTION			
Daily Average Production			
Oil + NGLs (BOE/D)	298	93	32
Natural Gas (BOE/D)	177	177	57
Total (BOE/D)	475	270	89
RESERVES			
Proven Plus 50% Probable Reserves			
Oil + NGLs (MBOE)	2,025	1,229	262
Natural Gas (MBOE)	1,001	568	522
Total (MBOE)	3,026	1,797	784
NET ASSET VALUE			
10% Net Present Value of Reserves (Proven + 50% Probable)	$ 27,104,000	$ 14,955,000	$ 6,875,000
Additions: Value attributable to salvageable equipment, seismic, undeveloped lands and 10% of year end Tax Pools	$ 4,842,000	$ 3,455,000	$ 986,000
Reductions: Long-term debt, working capital deficiency and future lease and other commitments	$ (8,054,000)	$ (5,715,000)	$(1,218,000)
Net Asset Value (NAV)	$ 23,892,000	$ 12,695,000	$ 6,643,000
Number of Common Shares Outstanding at Year End	13,361,354	10,917,123	6,441,666
NAV per Common Share	$ 1.79	$ 1.16	$ 1.03

President's Message



RICK MARTIN
President, CEO &
Chairman of the Board

PRESIDENT'S MESSAGE

I am pleased to report that Liberty Oil & Gas Ltd. had another successful year in 1999 and continued along the steady growth path that the Company had established over the previous three years. The Company experienced substantial growth in production volumes, reserves, net income, cash flow and share price during the year.

BOARD OF DIRECTORS

Liberty reports that Dick Bonnycastle, President of Cavendish Investing Ltd., resigned as a Director of the Company in August 1999 in order to direct more if his time to leisure activities. The Company would like to extend its gratitude to Mr. Bonnycastle for the invaluable contribution he made to Liberty during the formative three year period he served on the Board.

The Board continues to function effectively with the four remaining Directors as detailed below:

Name	Position
Rick Martin	President, CEO & Chairman of the Board
Russ Sych	Production Foreman
John Doyle	President, Netook Construction Ltd. Olds, Alberta
Iain Barr	VP Finance, Pacific West Systems Supply Ltd. Vancouver, British Columbia

MANAGEMENT TEAM

The same management team detailed in last year's Annual Report remains intact and consequently demonstrates a strong commitment to the Company. Furthermore, the team has been strengthened considerably with the addition of Deirdre Trudgeon in July 1999 as Legal Counsel and Corporate Secretary. Liberty's management team is further detailed on pages 6 and 7.

PRODUCTION

Liberty's annual average daily oil and gas production volumes have continued to grow at a steady pace over the past four years as shown below and as further detailed on page 11.

Annual Average Daily Oil & Gas Production BOE/D

	Oil & NGLs		Gas		Total
Year	BOE/D	(%)	BOE/D	(%)	BOE/D
1996	5	(50%)	5	(50%)	10
1997	32	(36%)	57	(64%)	89
1998	93	(34%)	177	(66%)	270
1999	298	(63%)	177	(37%)	475

Liberty had set a target at the beginning of 1999 to exit 1999 at a production rate of 1200 BOE/D. The company fell a little short of the target primarily because of very weak oil prices during the first half of 1999. This situation served to condense our 1999 program almost entirely in the 4th QTR of 1999 and the 1st QTR of 2000. The consequences were that we exited 1999 at a production rate of 760 BOE/D and actually reached the 1200 BOE/D mark on January 31, 2000. However, due to reductions in initial flush production rates, delays due to break-up in the connection of two key Alberta wells and normal start-up fluctuations in Fosteron, our daily production for the 1st QTR of 2000 averaged 815 BOE/D. With the completion of the connections of Aerial 6-6-29-18W4 and Warwick 11-27-51-14W4 after break-up and with Fosterton now functioning more consistently and at higher rates, we managed to restore our production level to 1200 BOE/D in early May, 2000. In addition, we are firmly on track to achieve our target to exit 2000 at a production rate of 1800 BOE/D.

RESERVES

Liberty's oil and gas reserves have also grown steadily over the past four years and the Company's proven + 50% probable reserves are summarized in the following table and are further detailed on page 10. The engineering firm of Gilbert Laustsen Jung Associates Ltd. has just completed an independent evaluation of the Company's reserves as of January 1, 2000 and the Company is pleased to report that our reserves at year end increased by 68% over our reserves position at December 31, 1998.

Oil & Gas Reserves, MBOE (Proven + 50% Probable)

Year	Oil + NGLs MBOE	Gas MBOE	Total MBOE
1996	341	52	393
1997	262	522	784
1998	1229	568	1797
1999	2025	1001	3026

1999 PERFORMANCE

As we stated in our 1998 Annual Report, Liberty's objectives for 1999 were as follows:

- To exit 1999 at a production rate of 1200 BOE/D.
- To increase our oil and gas reserves to 3500 MBOE.
- To complete an acquisition in the range of $2,000,000 to $3,000,000.

As detailed in the PRODUCTION section on page 3, Liberty fell a little short of its targets for the year, primarily because of weak oil prices during the first half of 1999. The Company exited 1999 at a production rate of 760 BOE/D and actually reached the 1200 BOE/D mark on January 31, 2000. Liberty's oil and gas reserves (proven + 50% of probable) increased from 1797 MBOE at the end of 1998 to 3026 MBOE at the end of 1999 and the Company completed an acquisition of 120 BOE/D in the Hazlet area of Saskatchewan for $1,400,000 which was effective December 1, 1999.

2000 OBJECTIVES

Liberty's objectives for 2000 are as follows:

- To exit 2000 at a production rate of 1800 BOE/D.
- To increase our oil and gas reserves to 4780 MBOE.
- To complete an acquisition(s) in the $3,000,000 range.

OUTLOOK FOR 2000

Liberty is in a strong position heading into 2000. Entering its 5th year of operations, the Company has built an excellent management team, developed a sound infrastructure and established a solid production and reserves base. The Company has also assembled an extensive land base containing several drillable prospects on Liberty operated lands which will be developed in 2000. The Company intends to drill wells this year in Aerial, Provost and Fosterton. The strengths of the program include the following:

- The drilling will take place on existing Liberty operated lands.
- The drilling costs in all cases are reasonable and cost effective.
- There is substantial upside potential in a number of the drilling prospects.
- The program is projected to raise the Company's production level to 1800 BOE/D by year end 2000.
- The program is balanced between gas and oil prospects.
- The program will be funded by cash flow and available bank line.
- Oil and natural gas prices continue to perform at near record levels with a WTI crude oil price of **$29.70 U.S. per barrel** and a natural gas spot price of **$4.01 Cdn per Mcf** on May 12, 2000.

Liberty has set challenging goals for 2000 and the Company is pleased to report that we have several available quality drilling prospects and a strong balance sheet by which we intend to achieve these goals.

ACKNOWLEDGEMENTS

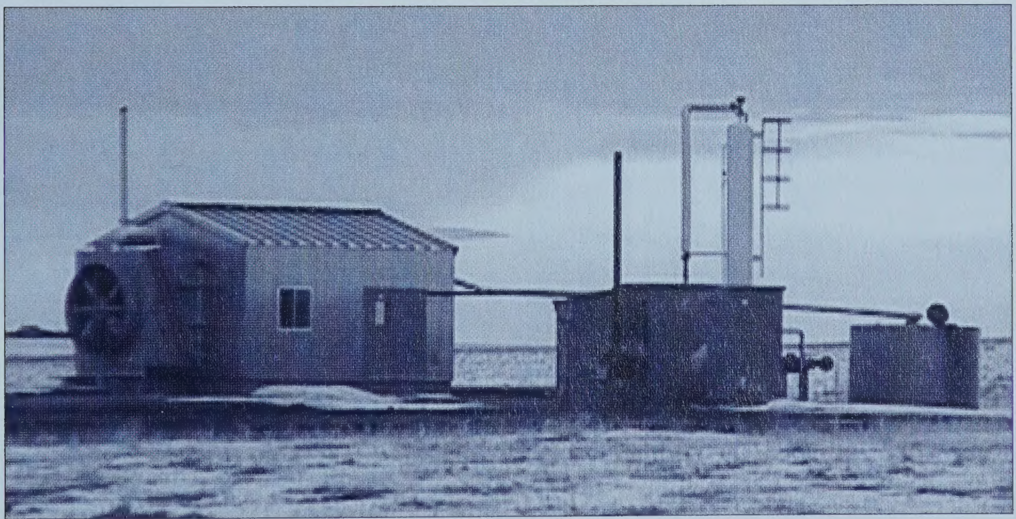
I would like to thank the Liberty staff, consultants and Directors for another solid performance in 1999.

I would also like to once again thank our shareholders for their continuing faith and patience. I look forward to seeing many of you at our 4th Annual Meeting on Wednesday, May 31, 2000.

On behalf of the Board of Directors,

Rick Martin

Rick Martin
President, CEO and Chairman of the Board
May 12, 2000



Aerial Production Facility

Management Team

RICK DOHERTY
Controller & CFO

29 years of industry experience

WORK HISTORY
- Maynard Energy Inc.
- Royal Trust Energy Corporation
- Cody Energy Canada Limited
- EnerMark Inc.
- Liberty Oil & Gas Ltd.

AREAS OF EXPERIENCE
- Financial reporting for private and public companies
- Oil and gas financial accounting
- Cash management planning and optimization
- Income tax planning
- Acquisition and divestiture due diligence
- Capital and operations budgeting

RICK MARTIN
President, CEO & Chairman of the Board

27 years of industry experience

WORK HISTORY
- Shell Canada Ltd.
- Czar Resources Ltd.
- Liberty Oil & Gas Ltd.

AREAS OF EXPERIENCE
- Production operations
- Production facilities, pipelines, oil batteries, gas plants, compressors
- Drilling, completions, workovers
- Gas marketing
- Acquisitions and divestitures
- Corporate management

RUSS SYCH
Production Foreman & Director

33 years of industry experience

WORK HISTORY
- Canadian Superior
- Andrex
- Czar Resources Ltd.
- Liberty Oil & Gas Ltd.

AREAS OF EXPERIENCE
- Production operations
- Pipeline construction
- Lease construction
- Installation of oil batteries, gas plants, field compressors and production facilities

SUSAN ELLIOT
Land Manager

26 years of industry experience

WORK HISTORY
- Norcen Energy Resources
- Ocelot Industries Ltd.
- Joffre Resources Ltd.
- Sulpetro Limited
- Eagle Resources Ltd.
- RimOil Corporation
- Canadian Pioneer Energy Inc.
- Liberty Oil & Gas Ltd.

AREAS OF EXPERIENCE
- Negotiations
- Acquisitions and divestments
- Land management
- Co-ordination of exploration and development projects

GREG ELLIOT
Operations Manager

22 years of industry experience

WORK HISTORY
- ERCB
- Sulpetro Limited
- Czar Resources Ltd.
- Paramount Resources Ltd.
- Liberty Oil & Gas Ltd.

AREAS OF EXPERIENCE
- Production operations
- Drilling, completions, workovers
- Horizontal drilling and completions
- Pipeline and facility design and construction
- Well testing and analysis
- Economic evaluations
- Safety and environmental management

FRED FARKAS
Exploration Manager

38 years of industry experience

WORK HISTORY
- ERCB, Sun Oil Company
- Golden Eagle Oil & Gas Ltd.
- Great Northern Oil Ltd.
- Cabre Exploration Ltd.
- Farkas Oil & Gas Ltd.
- Liberty Oil & Gas Ltd.

AREAS OF EXPERIENCE
- Exploration and exploitation geology
- Land strategy, economics
- Log analysis
- Reservoir engineering, reserves estimates
- Drilling operations

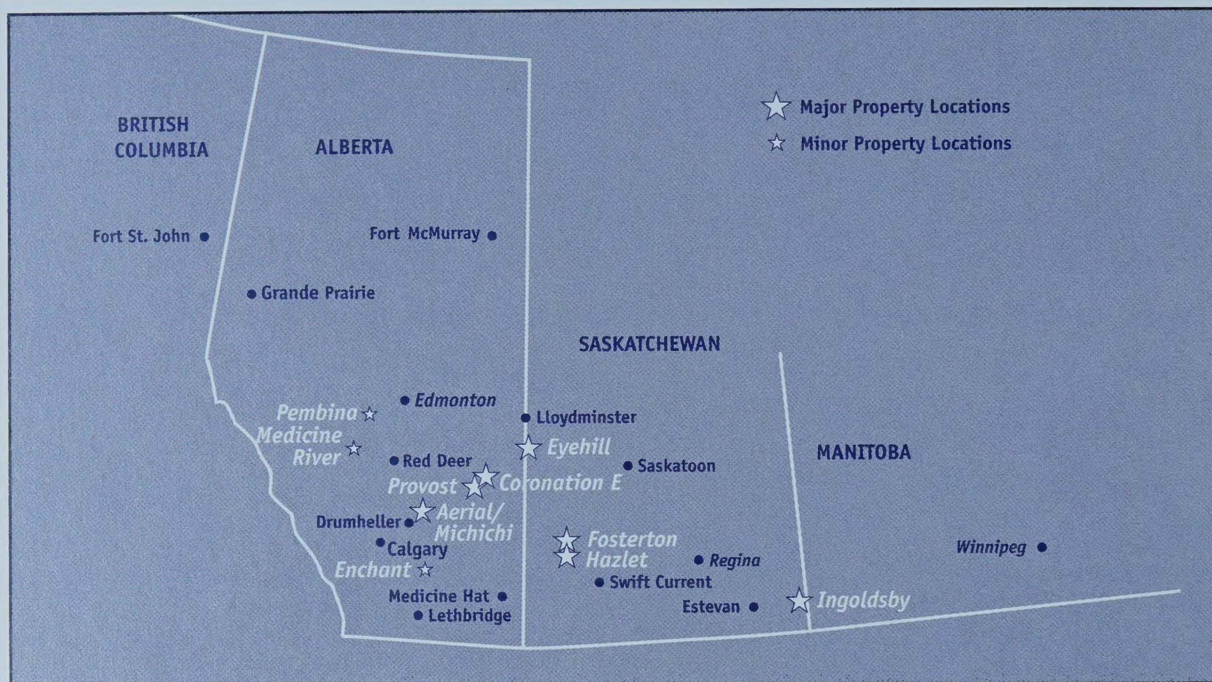
DEIRDRE TRUDGEON
Legal Counsel &
Corporate Secretary

16 years of related experience

WORK HISTORY
- Reynolds, Mirth
- Bennett Jones
- D. Trudgeon, Barrister & Solicitor
- Czar Resources Ltd.
- Liberty Oil & Gas Ltd.

AREAS OF EXPERIENCE
- Corporate Law
- Commercial Law
- Securities Law

Operations Review

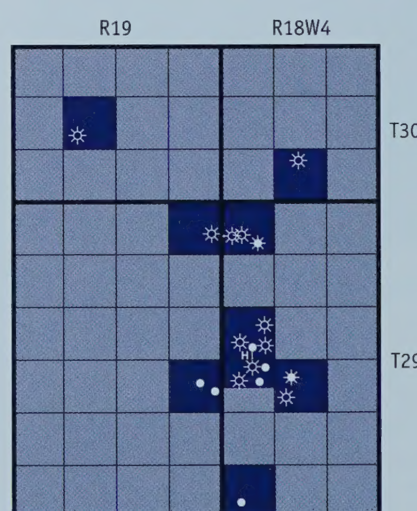


AERIAL/MICHICHI (T29, R18 W4), ALBERTA

Aerial is Liberty's core producing area and is situated 10 miles east of Drumheller. Liberty's average daily production for the Aerial/Michichi area is 450 BOE/D (20% oil and 80% gas).

During 1999 Liberty drilled 2 new wells in Aerial, 1 oil well and 1 dual zone gas well. Liberty also completed and placed on production an additional 3 gas zones and one oil zone in existing wells.

Liberty's plans for 2000 include the installation of a refrigeration plant to extract natural gas liquids from re-injected solution gas, optimizing current production and drilling up to 3 new wells for incremental oil and gas production.

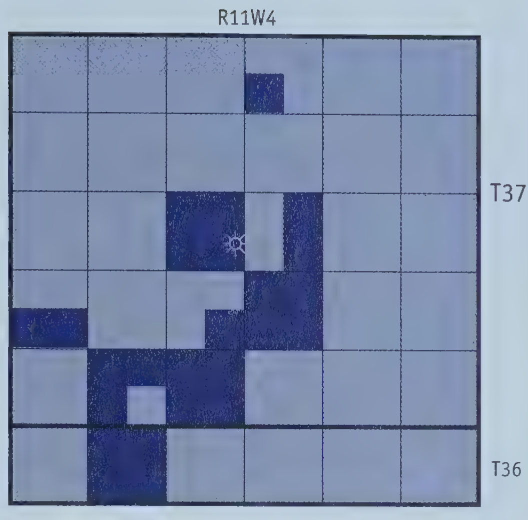


Aerial/Michichi, Alberta

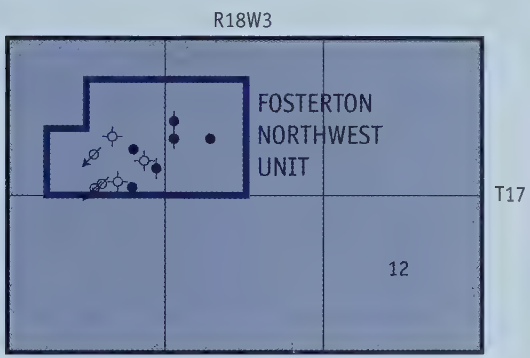
PROVOST (T37, R11 W4), ALBERTA

Liberty has a 77% working interest in a gas well (8-16-37-11 W4), which flowed at a rate of 1.0 MMcf/d (100 BOE/D) on an extended flow test. Plans are under way to have this well connected by the end of July 2000.

Liberty currently has an average interest of 47.5% in 6¼ sections in the Provost area and has recently entered into a seismic option agreement with the potential to acquire a 47.5% interest in an additional 7 sections of land. Liberty plans to start drilling on this option land early in 2000.



Provost, Alberta



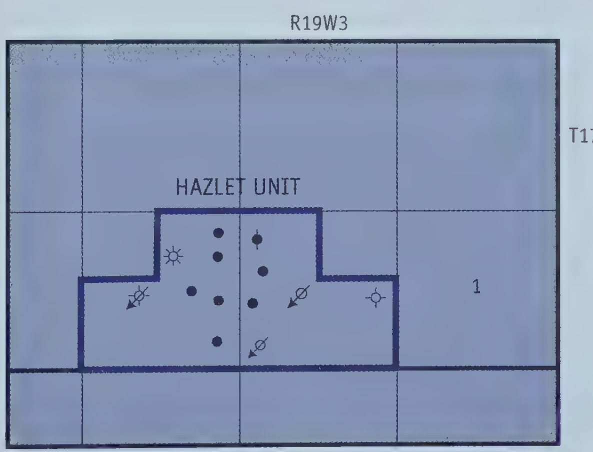
Fosterton, Saskatchewan

FOSTERTON (T17, R19 W3), SASKATCHEWAN

Fosterton is a Roseray sandstone medium oil prospect (22° API) in southwestern Saskatchewan. Liberty has a 70% interest in 1.1 sections. Liberty recently reactivated this high volume, low oil cut, waterflood project. Current production is 170 BOE/D (120 BOE/D net to the Company). Liberty expects to be producing 300 BOE/D (210 BOE/D net to the Company) by July 2000. Seismic data indicates at least 2 more drillable locations on the lands.

HAZLET (T17, R19 W3), SASKATCHEWAN

Hazlet is a Roseray sandstone medium oil prospect (22° API) in southwestern Saskatchewan. Liberty has a 49.7% interest in 1.5 sections. This is a high volume, low oil cut waterflood project. Production optimization has increased production from 240 BOE/D (120 BOE/D net to the Company) to 315 BOE/D (157 BOE/D net to the Company). Liberty expects to increase production another 10% to 20% with its ongoing production optimization program.



Hazlet, Saskatchewan

LAND HOLDINGS

The Company has been continuing to grow its land position in Alberta and Saskatchewan. At December 31, 1999 the Company's land holdings consisted of 27,785 gross producing acres (9,595 acres net to the Company) and 16,612 gross non-producing acres (8,202 acres net to the Company).

Management's Discussion and Analysis

FINANCIAL POSITION

Liberty estimates, based upon the Gilbert Laustsen Jung Report, that cash flow projections, the capital expenditures relating to future development and exploration activities, debt service requirements, operating and general and administrative expenses will be funded by cash flow from operations and available bank lines.

Liberty has achieved its growth through a balanced position of acquiring producing oil and natural gas properties together with a progressive plan of exploitation and development. Liberty has completed several private equity issues and has arranged a bank line of credit to fund capital projects and facility installations.

Adding value to the shareholders' position is the primary focus of managing Liberty's asset growth and development objectives.

The product pricing of the industry is volatile and Liberty is determined to minimize the effect of the pricing fluctuations with an even balance of oil and gas reserves and production.

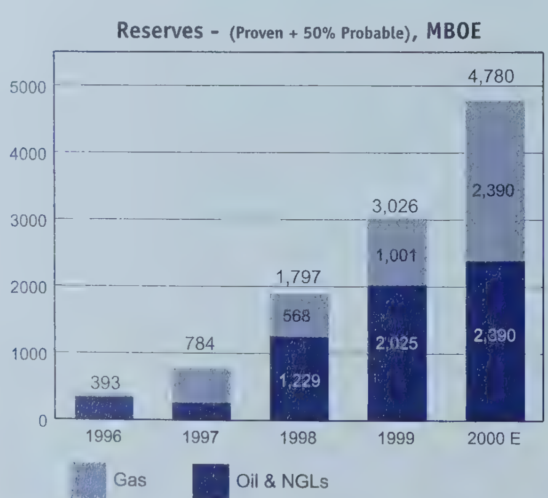
Liberty is conscious of its environmental responsibility and annually provides financial commitments for site restorations and well abandonments, in accordance with industry standards.

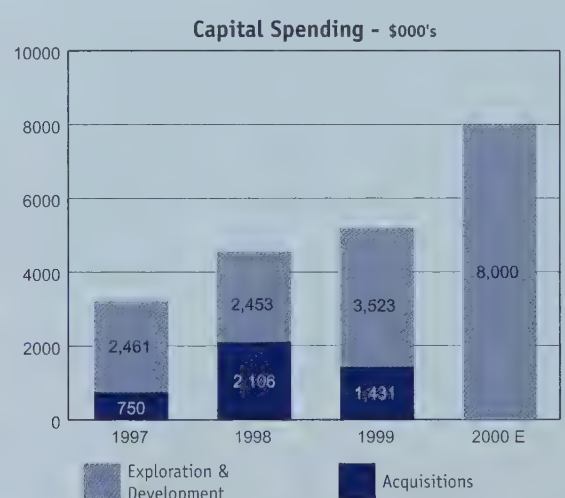
The Company's total future site restoration and abandonment liability has been estimated at $780,000 of which $111,000 has been accrued to December 31, 1999.

Liquidity and Capital Resources

During the year ended December 31, 1999, Liberty's $5.0 million capital expenditure program consisted of land and acquisitions of $1.6 million, drilling and completions of $2.2 million and well equipment and facilities of $1.2 million.

The 1999 capital expenditure program was financed primarily from cash flow of $1.5 million, available line of credit net of working capital of $2.5 million and a





private placement of flow-through share equity of $1.0 million.

At December 31, 1999, Liberty had a working capital deficiency of $2.1 million with an available line of credit for an equal amount compared to a working capital deficiency of $837,000 at December 31, 1998.

Capital Resources

Year Ended December 31

($ thousands)	**1999**	1998
Cash flow from operations	**1,544**	352
Working capital (deficiency)	**(2,055)**	(837)
Long-term debt	**5,242**	4,160
Equity issues, net of costs and the tax effect of flow-through shares	**966**	3,450

Long-Term Debt

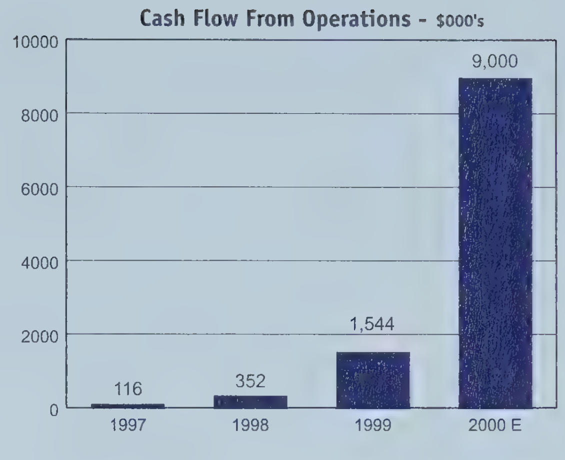
Bank loan at December 31, 1999, net of working capital, increased to $7.3 million compared to $5.0 million at December 31, 1998. The increase in long-term debt, net of working capital is due primarily to the acquisition of 120 BOE/D in the Hazlet area of Saskatchewan for $1.4 million and the partial funding of Liberty's 1999 capital expenditure program of $3.8 million.

VARIATIONS IN OPERATING RESULTS

The following is a summary of the variations in Liberty's operating results for the years ended December 31, 1999 and December 31 1998:

Cash Flow

Cash flow for the year ended December 31, 1999 was **$1,543,562**, an increase of 338% compared to $352,170 for the same period in 1998.

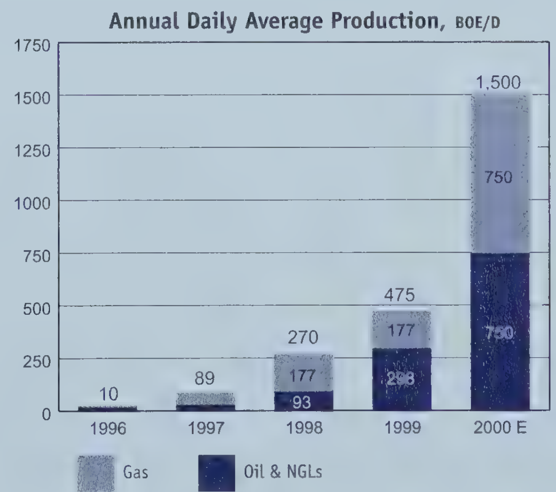


The increase in cash flow for 1999 is primarily due to increased production rates and increased product prices during 1999.

Cash flow per share for the year ended December 31, 1999 was **$0.14** per share based on the weighted average number of shares outstanding during 1999 and represented a 180% increase compared to $0.05 cash flow per share for the same period in 1998.

Annual Sales Volumes

Oil and NGLs sales volumes for the 1999 year totalled **108,700 BOE (an average of 298 BOE/D)**, an increase of 220% compared to 33,988 BOE (an average of 93 BOE/D) for the same period in 1998.



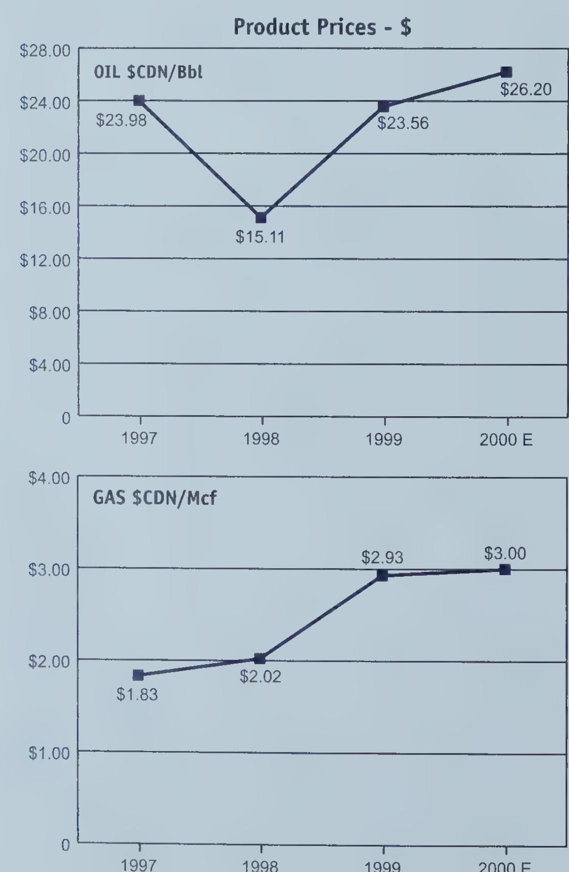
Natural gas sales volumes for the 1999 year totalled **647,754 Mcf (an average of 177 BOE/D)**, basically unchanged from the 646,341Mcf (an average of 177 BOE/D) for the same period in 1998.

The Company's production for 1999 of **475 BOE/D** was comprised of 298 BOE/D of oil and NGLs (63%) and 177 BOE/D of natural gas (37%) compared to 34% and 66% respectively for the same period in 1998.

Product Prices

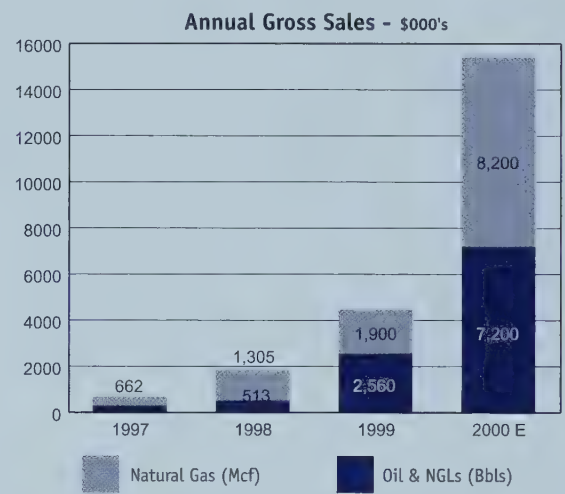
Oil and NGLs selling prices averaged **$23.56/Bbl** during 1999, a 56% increase compared to $15.11/Bbl for the same period in 1998.

The average selling price for natural gas during 1999 was **$2.93/Mcf**, a 45% increase compared to $2.02/Mcf for the same period in 1998.



Annual Gross Sales

Oil and NGLs sales for the 1999 year totalled **$2,560,491**, an increase of $2,047,003 compared to $513,488 for the same period of 1998. The increase in Oil and NGLs sales for 1999 attributable to higher volumes was $1,128,431 and the increase attributable to higher oil and NGLs prices was $918,260.



Natural gas sales for the 1999 year totalled **$1,899,696**, an increase of $594,314 compared to $1,305,382 for the same period in 1998.

The increase in natural gas sales for 1999 attributable to higher natural gas prices was $594,314.

Improved natural gas and oil and NGLs prices had a significant impact on the Company's cash flow for 1999.

Oil and Gas Sales (net of royalties) and Processing Fees

Gross oil and natural gas sales are reduced by Crown royalties net of the ARTC and overriding royalty burdens and are increased by gas processing fees charged to third parties.

Oil and gas sales (net of royalties) and processing fees for the 1999 year totalled **$3,956,901**, an increase of $2,318,373 compared to $1,638,528 for the same period in 1998.

Operating

Operating expenses for the 1999 year totalled **$1,207,792**, an increase of $481,997 compared to $725,795 for the same period in 1998. The increase in operating expenses is consistent with expanded operations. For 1999, operating expenses averaged **$6.96 per BOE** ($6.44 per BOE after deducting processing income) compared to an average of $7.36 per BOE for the same period in 1998.

General and Administrative

General and administrative expenses for the 1999 year totalled **$818,001**, an increase of $385,552 compared to $432,449 for the same period in 1998.

The 1999 general and administrative expenses averaged **$4.72 per BOE** compared to the 1998 average of $4.38 per BOE, an increase of 8%.

The increase in general and administrative expenses is a result of staffing and office expansion to meet increased activity generated by drilling and facilities projects and oil and gas acquisitions.

Interest on Long-Term Debt

Interest expense for the 1999 year totalled **$352,091**, an increase of $215,831 compared to $136,260 for the same period in 1998.

The increase is a result of expanded credit facilities covering a portion of the 1999 capital expenditures program.

The bank's prime rate fluctuated from a low of 6.5% to a high of 6.75% and averaged 6.58% for the year.

Depletion and Amortization

Depletion and amortization provisions for the 1999 year totalled **$1,096,694**, an increase of $129,459 compared to $967,235 for the same period in 1998.

The increase in the 1999 provision is primarily due to an expanded capital expenditure base and increased production levels.

Net Income (Loss)

Net income for the 1999 year totalled **$467,830**, an increase of $1,082,895 compared to a loss of ($615,065) for the same period in 1998.

Basic and fully diluted earnings (loss) per share for the 1999 year were **$0.04** compared to a loss of ($0.09) for the same period in 1998.

Business Risks

The 1999 year has been an excellent reminder of the risks inherently involved in oil and gas exploration. Commodity prices of oil and natural gas are beyond the control of the Company and the volatility of commodity pricing can significantly affect the level of the Company's cash flow. The Company's strategy to minimize the effects of pricing fluctuations is to maintain an even balance of oil and gas reserves and production.

The foregoing discussion and analysis of the financial results should be read in conjunction with the consolidated financial statements for the years ended December 31, 1999 and 1998. Information provided for the year 2000 is based on assumptions regarding future events and is subject to risks and uncertainties that may cause actual results to vary materially from these estimates.

Management's Report

To the Shareholders
Liberty Oil & Gas Ltd.

The accompanying consolidated financial statements are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the consolidated financial statements. Consolidated financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with generally accepted accounting principles.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safe-guarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

BDO Dunwoody LLP, the external auditors, conduct an independent examination of the consolidated financial statements in accordance with generally accepted auditing standards in order to express their opinion on the consolidated financial statements. Their examination includes a review and evaluation of the Company's system of internal controls and such tests and procedures as considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly.

The audit committee of the Board of Directors, with a majority of its members being outside directors, have reviewed the consolidated financial statements, including notes thereto, with management and BDO Dunwoody LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendations of the audit committee.

Rick Martin

Rick Martin
Chief Executive Officer

Rick Doherty

Rick Doherty
Chief Financial Officer

Auditors' Report

To the Shareholders
Liberty Oil & Gas Ltd.

We have audited the consolidated balance sheets of Liberty Oil & Gas Ltd. as at December 31, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Calgary, Alberta
March 16, 2000

Liberty Oil & Gas Ltd.

Consolidated Balance Sheets

As at December 31	1999	1998
ASSETS		
Current		
Cash and short-term deposits	$ 60,713	$ 4,498
Accounts receivable	1,823,667	592,161
Prepaid expenses	44,020	35,212
	1,928,400	631,871
Property, plant and equipment, net of accumulated depletion and amortization (Note 4)	14,031,038	10,127,192
Future income taxes (Note 8)	-	113,980
	$15,959,438	$ 10,873,043
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 4,001,004	$ 1,538,843
Corporate taxes payable	52,610	-
	4,053,614	1,538,843
Long-term debt (Note 5)	5,242,212	4,159,701
Future site restoration and abandonment	110,571	64,342
Future income taxes (Note 8)	9,280	-
	9,415,677	5,762,886
Shareholders' equity		
Share capital (Note 6)	6,951,586	5,985,812
Share purchase loan (Note 7)	(70,000)	(70,000)
Contributed surplus (Note 6(c))	26,738	26,738
	6,908,324	5,942,550
Deficit	(364,563)	(832,393)
	6,543,761	5,110,157
	$15,959,438	$ 10,873,043

Approved on behalf of the Board:

_______________ Director

_______________ Director

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Operations and Deficit

For the years ended December 31	1999	1998
REVENUE		
Oil and gas sales (net of royalties) and processing fees	$ 3,956,901	$ 1,638,528
Interest income	17,155	8,146
	3,974,056	1,646,674
EXPENSES		
Operating	1,207,792	725,795
Depletion and site restoration	1,096,694	967,235
General and administrative	818,001	432,449
Interest on long-term debt	352,091	136,260
	3,474,578	2,261,739
Income (loss) before taxes	499,478	(615,065)
Income taxes (Note 8)	31,648	-
Net income (loss) for the year	467,830	(615,065)
Deficit, beginning of year	(832,393)	(217,328)
Deficit, end of year	$ (364,563)	$ (832,393)
Basic and fully diluted earnings (loss) per share	$ 0.04	$ (0.09)
Weighted average number of shares outstanding during the year	10,927,039	6,911,773

The accompanying notes are an integral part of these financial statements.

Liberty Oil & Gas Ltd.

Consolidated Statements of Cash Flows

For the years ended December 31	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	$ 467,830	$ (615,065)
Adjustments for:		
Depletion and amortization	1,096,694	967,235
Future income taxes (recoveries)	(20,962)	-
Cash flow from operations	1,543,562	352,170
Changes in non-cash working capital balances		
Accounts receivable	(1,181,343)	(83,436)
Prepaid expenses	(8,808)	(10,802)
Accounts payable	279,712	323,283
Corporate taxes	52,610	-
	685,733	581,215
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital, net of redemptions, related costs and future tax effect	1,582,655	817,827
Long-term debt	374,650	1,305,660
Changes in non-cash working capital balances	6,094	110,000
	1,963,399	2,233,487
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of 614684 Saskatchewan Ltd., net of cash acquired (Note 3(a))	(152,823)	-
Acquisition of Rockport Energy Corporation (Note 3(b))	-	(1,669,736)
Property, plant and equipment	(4,594,528)	(1,197,325)
Changes in non-cash working capital balances	2,154,434	40,053
	(2,592,917)	(2,827,008)
Increase (decrease) in cash for the year	56,215	(12,306)
Cash, beginning of year	4,498	16,804
Cash, end of year	$ $60,713	$ 4,498
Cash flow from operations per share (1)	$ 0.14	$ 0.05
Weighted average number of shares outstanding during the year	10,927,039	6,911,773

(1) Fully diluted cash flow per share has not been disclosed as it is not materially different.

The accompanying notes are an integral part of these financial statements.

Liberty Oil & Gas Ltd.

Notes to the Consolidated Financial Statements

December 31, 1999 and 1998

1. Incorporation and Operations

Liberty Oil & Gas Ltd. (the "Company") was incorporated under the Business Corporations Act (Alberta) on March 8, 1994 and commenced operations on November 6, 1995. On November 30, 1998, the Company amalgamated with Rockport Energy Corporation and continued as Liberty Oil & Gas Ltd. under the Canada Business Corporations Act. The Company's principal business is the acquisition, exploration and development of oil and gas properties.

2. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Consolidation

The Consolidated financial statements include the accounts of Liberty Oil and Gas Ltd. (the "Company") and its wholly owned subsidiary 614684 Saskatchewan Ltd., as detailed in Note 3(a). All significant inter-company transactions have been eliminated.

(b) Property, plant and equipment

The Company follows the full cost method of accounting for acquisition, exploration and development expenditures wherein all costs related to the acquisition, exploration and development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties, costs of drilling both productive and non-productive wells, together with overhead and interest directly related to exploration and development activities. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly lower the rate of depletion and amortization. General and administrative expenses related to geology and acquisition of oil and gas properties are capitalized.

2. Significant Accounting Policies - continued

Costs capitalized, together with the costs of production equipment, are depleted on the unit-of-production method based on the estimated proved reserves. Production and processing equipment are depleted net of expected salvage value. Future salvage values used in determining depletion of oil and natural gas properties were estimated in aggregate to be $2,948,100 (1998 -$1,947,100). Unproved properties are excluded from the depletion calculation. Petroleum products and reserves are converted to equivalent units with natural gas at approximately 10 thousand cubic feet of natural gas to 1 barrel of oil.

In applying the full cost method, the Company performs a ceiling test on properties which restricts the capitalized costs less accumulated depletion from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, as determined by independent engineers, based on sales prices achievable under existing contracts and posted average reference prices in effect at the end of the year and current costs, after deducting estimated future general and administrative expenses, production related expenses, financing costs, future site restoration costs and income taxes. No assessment is made within the first 24 months after a property is acquired, unless a permanent impairment in the ultimate recoverable amount has been determined.

The continued recoverability of amounts shown for petroleum and natural gas properties is dependent upon the discovery of economically recoverable reserves and the ability of the Company to obtain the necessary financing to complete the development and future profitable production of proceeds from the disposition of oil and gas properties.

Estimated net future site restoration and abandonment costs are provided for on the unit-of-production method based on the estimated net proven reserves. Estimated costs are based on engineering estimates in accordance with current legislation and industry practices. Actual expenditures incurred are applied against future site restoration provisions.

Where oil and gas activities are conducted jointly with others, the financial statements reflect only the Company's proportionate interest in such activities.

Automobiles, office furniture, computer hardware, computer software and well data are recorded at cost and amortized using the declining balance basis at annual rates ranging from 20 to 100%. In the year of acquisition, one-half the annual rate is used. Software licenses are amortized straight line over 36 months from acquisition.

(c) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act of Canada ("the Act"). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no tax deduction to the Company.

Share capital and property, plant and equipment are reduced by the estimated amount of related future tax liability upon completion of the financing.

2. Significant Accounting Policies - continued

(d) Financial instruments

The Company carries various financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(e) Measurement uncertainty

The amounts recorded for depletion of property, plant and equipment and the provision for future site restoration and reclamation are based on estimates of future costs and salvage values. The ceiling test is based on estimates of proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes and estimates in future periods could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements, the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

(f) Future income taxes

The Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the new recommendations, the liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

3. Business Combination

(a) The Company entered into an agreement on December 1, 1999 whereby it agreed to purchase all of the shares of 614684 Saskatchewan Ltd. (614684), a private company. The acquisition of 614684 was accounted for by the purchase method. The fair values of the assets and liabilities acquired were as follows:

Cash	$ 60,001
Other current assets	50,163
Current liabilities	(21,921)
Working capital	88,921

3. Business Combination - continued

(a) Petroleum and Natural Gas Properties (net book value of $505,911, resulting in an adjustment to book values of $326,531)		832,442
Future tax liability		(146,940)
Long-term debt		(707,861)
Fair value of net assets acquired	$	65,884
Purchase price paid via:		
Cash	$	212,824
Fair value of net assets acquired		(65,884)
Future tax adjustment included in property, plant and equipment	$	146,940

(b) During 1998 the Company acquired Rockport Energy Corporation ("Rockport") via a reverse takeover. The share for share exchange ratio agreed upon was 4.8696 common shares of Rockport for one common share of the Company. The business combination has been accounted for by the purchase method, with the Company being deemed the acquirer, based on the fair values of the assets and liabilities acquired effective November 30, 1998 as follows:

Working capital deficiency	$	436,743
Petroleum and Natural Gas Properties (net book value of $3,451,821, resulting in a purchase price adjustment of $1,521,333 recorded to the book value of these properties)		4,973,154
Bank loan		(1,669,736)
Deferred site restoration and abandonment		(168,675)
Fair value of net assets acquired	$	2,698,000
Purchase price paid via:		
Fair value of Liberty shares issued	$	2,698,000

The operations of the two companies were amalgamated on November 30, 1998, which was the date of acquisition.

4. Property, Plant and Equipment

December 31, 1999	Cost	Accumulated Depletion and Amortization	Net Book Value
Furniture and equipment	$ 153,249	$ 63,884	$ 89,365
Petroleum and natural gas properties and equipment	16,066,521	2,124,848	13,941,673
	$ 16,219,770	$ 2,188,732	$ 14,031,038

4. Property, Plant and Equipment - continued

December 31, 1998	Cost	Accumulated Depletion and Amortization	Net Book Value
Furniture and equipment	$ 137,671	$ 27,391	$ 110,280
Petroleum and natural gas properties and equipment	11,127,788	1,110,876	10,016,912
	$ 11,265,459	$ 1,138,267	$ 10,127,192

During 1999, the Company capitalized $97,830 (1998 - $116,337) of general and administration expenses related to geology and $263,365 (1998 - $48,304) of general and administration expenses related to acquisition of oil and gas properties. As at December 31, 1999, costs of acquiring unproved properties in the amount of $531,100 (1998 - $402,500) were excluded from depletion calculations.

5. Long-Term Debt

	1999	1998
The Company has in place a revolving demand loan bearing interest at prime plus 0.50% with a maximum available amount of $7.2 million. This loan is secured by a general assignment of book debts and a $10 million debenture with a floating charge over all assets of the Company. A stand by fee of 1/4% per annum is charged on the undrawn portion of this facility and is payable monthly. In spite of being a demand loan, the bank does not intend to demand repayment of the outstanding principal balance prior to December 31, 2000. Subsequent to year end, the maximum facility was increased to $8.0 million.	$ 4,534,351	$ 4,159,701
The loan is payable in monthly payments of interest only. Interest is charged at 9% per annum. The loan is due March 31, 2001 and has been repaid subsequent to year end out of the Company's credit facility.	707,861	-
	$ 5,242,212	$ 4,159,701

6. Share Capital

(a) Authorized

Unlimited Common voting shares

Unlimited Class A preferred shares

6. Share Capital - continued

(b) Issued

The capital structure of the Company changed in the prior year due to a reverse takeover and amalgamation effected as detailed in Note 3 (b).

	December 31, 1999		December 31, 1998	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Balance, beginning of year, as previously stated	10,917,123	$ 6,115,206	7,937,000	$ 2,535,597
Adjustment for stock consolidation and share exchange ratio (1)	-	-	(1,495,334)	-
	10,917,123	6,115,206	6,441,666	2,535,597
Issued for cash pursuant to:				
Flow-through shares	2,444,231	1,588,750	1,263,418	1,061,201
Tax effect of flow- through shares	-	(619,600)	-	(179,592)
Issued upon acquisition of Rockport (Note 3(b))	-	-	3,212,039	2,698,000
	13,361,354	7,084,356	10,917,123	6,115,206
Less: Share issue costs, net of future tax effect of $116,698 (1998 - $113,980)	-	(132,770)	-	(129,394)
Balance, end of year	13,361,354	$ 6,951,586	10,917,123	$ 5,985,812

(1) To give effect to a 6:1 stock consolidation and share exchange ratio (Note 3 (b)) effective November 30, 1998.

(c) In 1997, the Company repurchased 202,902 shares for cash consideration of $50,000. The difference between the cash consideration and the stated value of the repurchased shares was credited to contributed surplus.

(d) The Company adopted a stock option plan for officers, employees, directors and consultants pursuant to the terms of which the Company can option up to 10% of the issued shares. The Company has outstanding 456,000 (1998 - 398,703) options to acquire common shares at $0.35 which were granted in 1999 (1998 - 398,703). The Company granted 462,000 options during the year (1998 - 398,703) of which one third vests annually over three years based on the anniversary date of the options. During the year no (1998 - Nil) options were exercised and 404,703 (1998 - Nil) options were cancelled. Subsequent to year end, the Company approved the issue of 660,000 options subject to regulatory approval.

7. Share Purchase Loan

During 1998, the Company advanced funds to an officer and director to assist with the director's acquisition of shares in the flow-through share offering that closed on November 4, 1998. The loan is secured and bears interest at prime plus 1%.

8. Income Taxes

(a) The effective rate of income tax varies from the statutory rate as follows:

	1999	1998
Combined tax rate	45%	45%
Expected income tax provision (recovery) at statutory rate	$ 224,765	$ (276,779)
Other permanent differences	1,600	(3,010)
Resource related adjustments	(71,988)	441,554
Provision for large corporations and provincial capital taxes	52,610	-
Recognition of future tax assets	(175,339)	(161,765)
Actual income tax provision	$ 31,648	$ -

(b) The income tax provision consists of:

	1999	1998
Current	$ 51,440	$ (276,779)
Future	154,377	-
Provision for large corporations and provincial capital taxes	52,610	-
Recognition of future tax assets	(175,339)	-
Utilization of loss carryovers	(51,440)	276,779
Actual income tax provision	$ 31,648	$ -

(c) At the end of the year, subject to confirmation by income tax authorities, the Company has the following undeducted tax pools:

December 31	1999	1998
Canadian Oil and Gas Property Expenses	$ 2,503,521	$ 1,487,677
Canadian Exploration Expenses	$ 2,806,687	$ 1,998,084
Canadian Development Expenses	$ 2,362,346	$ 2,944,476
Undepreciated Capital Cost	$ 3,882,682	$ 2,783,738
Share Issue Costs	$ 201,996	$ 253,287
Non-Capital Losses, expiring at varying dates before December 31, 2006	$ 985,047	$ 585,091

(d) The Company has opted for early adoption of the Canadian Institute of Chartered Accountants' recommendation with respect to future income taxes. Future tax liabilities associated with oil and gas properties resulting primarily from the issue of flow-through shares of $1,296,300 (1998 - $587,700) have been netted against property, plant and equipment (Note 2(c)).

In addition, the Company has recognized 1999 - $90,090 (1998 - $113,980) as a future income tax asset and a reduction of share issue costs for tax benefits to be utilized with respect to share issue cost pools available at December 31, 1999.

9. Related Party Transactions

During the year ended December 31, 1999, the Company:

(a) Charged $4,753 (1998 - $5,360) of interest on a loan to a shareholder as detailed in Note 7.

(b) Issued 73,125 (1998 - 36,928) shares of the total 2,444,231 (1998 - 1,263,418) flow-through shares to officers and directors of the Company.

(c) During 1998 the Company advanced $70,000 to an officer and director as a share purchase loan (Note 7).

10. Commitments

(a) The Company is committed to leased office premises with future lease payments, exclusive of common costs, as follows:

2000	$ 50,579
2001	57,732
2002	62,250
2003	15,223
2004	15,223
	$ 204,813

The leases expire December 30, 2002 and March 31, 2005

(b) The Company is committed to leased vehicles and two natural gas compressors under operating leases with future lease payments as follows:

2000	$ 108,181
2001	100,860
2002	66,857
	$ 275,898

11. Financial Instruments

As disclosed in Note 2(d), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk and industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Interest rate risk management
The Company's short and long term borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

11. Financial Instruments - continued

As at December 31, 1999, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $45,400 (1998 - $41,600). The related disclosures regarding these debt instruments are included in Note 5 of these financial statements.

(b) Industry risks

The Company's trade accounts receivable are from companies in the oil and gas industry and as such, the Company is exposed to all the risks associated with that industry. The Company manages price risk on its production by entering into forward sales and fixed price contracts.

12. Statement of Cash Flows

(a) The Company has adopted the new recommendation of the Canadian Institute of Chartered Accountants for the Statement of Cash Flows. As a result, the comparative amounts presented in the financial statements have been reclassified to conform to the current year's presentation.

(b) The total interest paid in 1999 was $352,091 (1998 - $136,260).

(c) During the year the Company had no non-cash transactions. The non-cash activities during 1998 included the acquisition of Rockport in exchange for 3,212,039 shares with an attributed value of $2,698,000. Financing activities in 1998 do not reflect the issue of these shares as it was a non-cash transaction as detailed in Note 3(b).

13. The Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

14. Comparative Figures

The comparative financial statement presentation has been restated to conform with the current year's presentation.

Notes

Corporate Information

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No. of Shares Issued
& Outstanding as of
May 12, 2000: **13,374,354**

BOARD OF DIRECTORS

Rick Martin(1)
President, CEO and Chairman of the Board

Russ Sych
Production Foreman

John Doyle(1)
President, Netook Construction Ltd., Olds

Iain Barr(1)
VP Finance, Pacific West Systems Supply Ltd., Vancouver

(1) Members of the Audit Committee

KEY PERSONNEL

Rick Martin	President & CEO	(403) 543-8786
Rick Doherty	Controller & CFO	(403) 543-8782
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Susan Elliot	Land Manager	(403) 543-8783
Greg Elliot	Operations Manager	(403) 543-8785
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TRADING SYMBOL LBR

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